



June 5, 2003

To: Members of the Board

From: Robert Bramlett

Through: Wendy M. Comes, Executive Director

Subject: Concepts Phase 1 – Reporting Objectives – review of staff plan

As I explained in my e-mail of June 2, I expect to present a review of references to objectives in FASAB's standards for our August meeting. My e-mail solicited input on FASAB's *Objectives* and our review of them. The e-mail included some questions that will remain open after our June meeting. Obviously, it would be premature to try to answer those questions definitively now. In the same spirit of initiating an on-going discussion, I list some possible topics you may wish to address. The intent is to invite discussion that will provide greater insight regarding members' views on the scope, direction, and objectives of the project and what staff work will be needed to support your deliberations.

#### 1. Background

Do Board members want more background information on the intent underlying specific terms or concepts in SFFAC 1 (e.g., "systems and controls," "stewardship")? Are implications of specific provisions obscure?

#### 2. User needs study

The draft plan does not provide for a new user needs study. At one time Mr. Kull urged such a study. Does the Board believe a new study would be desirable? On one hand, it is difficult to argue with the virtues of knowing more about users' information needs. On the other hand, experience shows that planning and conducting such studies can be time-consuming, and interpreting the results can be problematic.

If a study were undertaken, what would be its objectives? Do members have specific kinds of questions or groups of users (or potential users) in mind? The initial users' needs study involved structured interviews with a variety of federal managers, several "focus groups" with different groups of federal financial and program managers and budget analysts (including congressional staff as well as OMB), and a "roundtable" discussion with financial managers and auditors from

states and local governments.<sup>1</sup> Should similar techniques and groups be used in a new study, or would some alternative be superior (e.g., written surveys, “roundtable” meetings, or some other technique)?

### 3. Impact of changes

Members have suggested that changes since *Objectives* was published may imply a need for different objectives. Mr. Kull, for example, has alluded to changes in the way that the Government is managed, and Messrs. Patton and Anania have mentioned AICPA’s recognition of FASAB as a source of GAAP. Mr. Patton suggests that some people may question whether GAAP financial statements are an appropriate vehicle for serving the “systems and controls” objective. Similarly, the Government Performance and Results Act of 1993 greatly elaborated on the minor reference to performance information in the CFO Act of 1990, and gave OMB primary responsibility for implementing GPRA. Some may question whether SFFAC 1’s references to reporting on performance remain appropriate in light of this development. The Board’s composition and its underlying Memorandum of Agreement have been amended. Perhaps some members regard these or other changes as relevant to the objectives. Do members wish to elaborate on specific changes they believe may have implications for the objectives of accounting?

### 4. Members priorities

Do members have greater concerns about specific parts of SFFAC 1 that should be given higher priority in the project?

### A Note About the Enclosure

A copy of “Government Accounting: An Assessment of Theory, Purposes and Standards,” is enclosed. Professor James Chan gives an excellent overview of government accounting and related research in just six pages.<sup>2</sup> His brief discussion under the heading **Purposes of**

---

<sup>1</sup> I also attempted to set up a focus group with reporters. I contacted about 20 potential candidates, people who had written about federal financial issues in general circulation magazines and newspapers (e.g., the *New York Times*, *Wall Street Journal*, and *Washington Post*) and in more specialized publications (e.g., *National Journal*, *Congressional Quarterly*). No one was willing to participate. Some said that participating would compromise their journalistic independence, but most admitted they didn’t wish to devote time to it. I inferred that (absent an honorarium) even some “information intermediaries” prefer to rely on other intermediaries (notably including GAO, CBO, the Inspectors General, and analysts working for think tanks and interest groups). Given the Board’s interest in reporting information useful to citizens, it might want to repeat the attempt. Given the greater salience of FASAB and federal financial reporting now, we might have better luck. Alternatively, we might focus more on the “intermediaries’ intermediaries” such as academics, government auditors, analysts who work for interest groups and think tanks, etc.

<sup>2</sup> “Government Accounting: An Assessment of Theory, Purposes and Standards,” by James L. Chan, from *Public Money and Management* for January 2003. (See <http://www.blackwell-synergy.com/servlet/useragent?func=showIssues&code=pmam>)

**Government Accounting** (on the second page of the article, numbered page 14 as published) may be particularly relevant to a discussion of objectives. He lists three levels:

1. *Basic*: to safeguard the public treasury by preventing and detecting corruption and graft.
2. *Intermediate*: to facilitate sound financial management.
3. *Advanced*: to help government discharge its public accountability.

In recent months we have provided members with copies of the American Accounting Association's *Statement on Accounting Theory and Theory Acceptance* and Reed Storey's *The Framework of Financial Accounting Concepts and Standards*. For those who want to read more about objectives from an academic yet accessible perspective, I recommend "The Search for Objectives" – chapter 6 from *Accounting Theory: A Conceptual and Institutional Approach* by Harry I. Wolk, Michael G. Tearney, and James L. Dodd.<sup>3</sup> This textbook reflects and integrates accounting research. Mr. Anania has described a conceptual framework as a "set of tools" for the Board to use in setting standards. Though the textbook focuses on the private sector, nearly every chapter of *Accounting Theory* offers "tools" for standards setters in this sense.

---

<sup>3</sup> Fifth edition, 2001, South-Western College Publishing/Thomson Learning. See <http://snapshot.swcollege.com/ss-overview.cfm?isbn=0-324-00658-6&disccode=1&v=1>.

## Excerpt from Draft Project plan

### PHASE 1: Evaluate Objectives

Concepts 1 identified reporting objectives. Some Board members have suggested that FASAB reporting objectives are broad in comparison to those of other standard setters. In fact, Concepts 1 says, “many information sources other than financial statements help to attain these objectives. The objectives relate to the management and financial reporting systems in the federal government in their entirety.” (par. 5) As the Board’s work has progressed, members have found it difficult to rely on these broad objectives to reach conclusions on specific standards issues.<sup>4</sup>

Phase 1 will address questions such as:

1. As drafted, are the objectives themselves clearly stated and complete?
2. Have any events/circumstances arisen since the objectives were drafted that would cause the Board to reconsider them?
3. Are certain objectives currently met by means other than GAAP financial statements? If so, how reliable (stable) are the means currently in place?
4. Does FASAB have a comparative advantage over other means of meeting certain objectives?
5. Are the objectives overly inclusive? Some have suggested that the objectives are so broad that they do not narrow the field of alternatives. Is it appropriate to determine “FASAB’s objectives” from among the current broad reporting objectives? Alternatively, is it appropriate to prioritize among the current objectives?
6. How does the current reporting model contribute to meeting each reporting objective? (Responding to this question may require the Board to express its views on element definitions and the purpose/meaning of individual statements. This discussion would serve as a building block for future projects.)
7. Based on the above issues, the board would consider whether an amendment of the objectives is needed. The Board may conclude that the objectives are appropriate and that issues may be resolved by increased reference to and explanation of the tradeoffs among objectives would be helpful in its deliberations.

#### Related Projects:

For each standards project, the Board considers how accounting alternatives would contribute to meeting reporting objectives. For some standards, the Board has indicated that one or more objectives are “primary.” Thus, the Board may wish to consider whether explicitly speaking to the reporting objectives by narrowing or ranking the objectives for that specific project would enhance decision making on each active project.

Staff Action Items: For each active project, staff will (1) indicate which objectives are most relevant, explain why other objectives are not considered relevant, and, if applicable, explain barriers to consideration of those not considered relevant, (2) as policy alternatives are considered, describe how the alternatives contribute to meeting relevant objectives, and (3) identify any other means (i.e., other than GAAP

---

<sup>4</sup> Members note that the objectives do not lead them to narrow or chose among alternative solutions. As always, there are tradeoffs between meeting objectives as well as qualitative characteristics. Members wish to explore further the implications of our current objectives.

financial statements but including certain reports mandated by law) of meeting the reporting objectives.

Phase 1 Product:

The Board may wish to develop a concepts statement that narrows or ranks the previously stated objectives.<sup>5</sup> The statement may address the current reporting environment (including non-GAAP reporting initiatives), how the original (broader) reporting objectives not retained (or no longer primary) are met, and the Board's role in meeting the remaining or primary objectives. The phase 1 product should (1) enhance the Board's selection of standards projects by making explicit the objectives attainable through GAAP financial reports and (2) communicate to users the Board's objectives.

---

<sup>5</sup> Note that the staff action items call for a ranking on a project by project basis, the ranking suggested here would be for overall reporting objectives. Thus, there would be a "default" ranking at the beginning of each project. Note that the ranking need not be a strict hierarchy – there could be Tier 1 objectives and Tier 2 objectives.